

Audited Financial Statements
and Other Financial Information

MBS International
Airport Commission

*Year ended December 31, 2004
with Report of Independent Auditors*

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MBS International Airport Commission		County Saginaw
Audit Date 12/31/04	Opinion Date 2/18/05		Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.


- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
N/A
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
N/A
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
N/A
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Passenger Facility Charge Program

X

Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik PLC			
Street Address 5300 Gratiot	City Saginaw	State MI	ZIP 48603
Accountant Signature 		Date 3-21-05	

MBS International Airport Commission

Audited Financial Statements
and Other Financial Information

Year ended December 31, 2004

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Board of Commissioners
MBS International Airport Commission

We have audited the accompanying statement of net assets of MBS International Airport Commission (Commission) as of December 31, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBS International Airport Commission as of December 31, 2004, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005 on our consideration of MBS International Airport Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

Andrews Hopper & Pavlik P.L.C.

Saginaw, Michigan
February 18, 2005

MBS International Airport Commission

Management's Discussion and Analysis

INTRODUCTION

This section of the MBS International Airport Commission (Commission or MBS) annual audit presents an analysis of the Commission's financial performance during the fiscal year ended December 31, 2004. This information is presented in conjunction with the audited basic financial statements, which follow. The annual report consists of the following three parts: Management's Discussion and Analysis (MD&A) Basic Financial Statements; and other Supplementary Information. The financial statements include notes which explain in detail some of the information included in the basic financial statements. The information contained in this MD&A should be considered in conjunction with the information contained in the Commission's financial statements.

AIRPORT ACTIVITY HIGHLIGHTS

The airline industry in general continues to suffer economically. Airline bankruptcies continue, including United, USAirways and low-cost carrier ATA. Two other carriers, Delta and Independence Air, flirted with bankruptcy during 2004. While general consensus is that passenger traffic levels have returned to pre-September 11th levels, the airlines are not making a profit due to an over-capacity of seats in the market keeping fares low. Added to this is the continued rise in oil prices, resulting in the airlines losing money in record amounts. The carriers serving MBS, Northwest, Mesaba, Pinnacle, and Skywest for United Express, offer a mixed review of the airline industry. Northwest and their regional partners have not been in bankruptcy protection while mainline United continues in reorganization. The industry hope is that United will emerge from bankruptcy protection late in 2005.

MBS passenger traffic in 2003 was 430,799 total passengers. Several sources were referenced prior to preparing the 2004 Budget, including FAA traffic forecasts, local business leaders, local travel professionals, state aeronautics officials, and other airport managers. With this information in hand, the estimate for 2004 passenger traffic was to hold level with 2003, with level being defined as plus or minus 1%. Therefore, the 2004 Budget for revenue was set at the same amount as 2003, which was \$5,000,000. Actual passenger traffic for 2004 totaled 424,758 passengers, which represented a 1.4% decline. One reason for the slight decline in passengers was that United Express reduced their flight schedule from the five daily MBS-Chicago trips to four daily flights. This was done to accommodate an overall reduction of flights into Chicago O'Hare Airport (O'Hare) by American and United during 2004. The reduction was a voluntary effort by the two major carriers serving O'Hare to cut capacity and thereby reduce delays into and out of the airport. The FAA approved the voluntary capacity cutback in lieu of implementing mandatory, more stringent, cuts. MBS was one of many airports which lost at least one flight into Chicago because of this action.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Commission conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Assets includes information on the Commission's assets and liabilities with the difference between the two reported as net assets. The Statement of Revenues, Expenses and Changes in Net Assets identify the Commission's revenues and expenses for the fiscal year ended December 31, 2004.

REVENUES

For fiscal year ending December 31, 2004, revenues were \$2,761,899 which is consistent with 2003.

In general, airfield revenue increased slightly in 2004; however, landing fee revenue declined by 2.3%. United Express operated four daily flights to Chicago in 2004 as opposed to five daily flights in 2003 as previously discussed.

Hangar area revenue totaled \$154,434 in 2004 which was a slight increase of just over 1%. Escalating clauses built into the lease rates took effect in 2004, which caused the increase.

Total concession fees increased approximately 2.8% in 2004, finishing the year at \$1,322,563. Car rental company concession and parking lot revenue showed increases for the year.

EXPENSES

Total operating expenses for 2004 ended at \$2,767,363, which was 8.6% higher than 2003. This was due to an overall increase in costs, with the settling of the Teamsters contract in 2004 having an impact.

Salaries, wages and benefits cost a total of \$1,619,811 in 2004, an increase of just under 4% from 2003. The labor contract was settled for a 3% increase and the cost of benefits, especially health care, increased as well.

Operating expenses other than salaries, wages and benefits for 2004 were \$1,147,552, which was an increase of over 15% from 2003. Two major categories which increased are utilities and gasoline and oil. Two rate increases in the natural gas price impacted the airport, as did the continuing rise in oil prices. These two categories increased almost \$40,000 for a 16% jump. Another major increase was in public relations, which rose from \$86,086 in 2003 to \$160,030 in 2004. This was caused by intensified marketing efforts over the second half of 2004. The final substantial increase in operating expenses came in the operating supplies category, which rose from \$77,851 in 2003 to \$116,811 in 2004. This category includes numerous accounts with the largest increase resulting from the purchase of snow removal chemicals. This product is required to maintain a safe operating environment at the airport, and the purchase is strictly weather dependant. Further increases occurred with the purchase and maintenance of radio equipment. This equipment is also required to maintain a safe operating environment.

THE AIRPORT AS A WHOLE

For the fiscal year ended December 31, 2004, current assets totaled \$18,535,884, which is 1.1% higher than the \$18,331,773 for 2003. The largest increase is for cash and cash equivalents, which rose from \$17,833,843 in 2003 to \$18,044,346. The increase is due in part to the rise in interest rates in the second half of 2004. Total assets for year end equaled \$42,547,961.

Below is a summary chart of net assets at December 31, 2004. A comparative analysis will be provided in future years when prior information is available.

Assets

Cash and cash equivalents	\$18,545,196
Other assets	491,538
Capital assets	<u>23,511,227</u>
Total assets	<u>\$42,547,961</u>

Liabilities

Current liabilities	\$ 223,355
Long-term liabilities	<u>1,243,647</u>
Total liabilities	<u>1,467,002</u>

Net assets

Invested in capital assets, net of related debt	\$23,511,227
Restricted	500,850
Unrestricted	<u>17,068,882</u>
Total net assets	<u>\$41,080,959</u>

Below is a summary chart for Capital Assets at December 31, 2004. A comparative analysis will be provided in future years when prior information is available.

Capital assets

Land and land improvements	\$ 7,113,954
Buildings	15,040,642
Runways and taxiways	27,873,472
Equipment	5,142,327
Construction-in-progress	<u>1,199,384</u>
Total	56,369,779
Accumulated depreciation	<u>32,858,552</u>
Total capital assets	<u>\$23,511,227</u>

Below is a summary chart for Revenues, Expenses and Changes in Net Assets for the year ended December 31, 2004. A comparative analysis will be provided in future years when prior information is available.

Total operating revenues	\$ 2,761,899
Total operating expenses	<u>2,767,363</u>
Operating loss before depreciation and health benefit expense	(5,464)
Depreciation	1,995,068
Postretirement health benefit expense	<u>58,826</u>
Loss from operations	(2,059,358)
Non-operating revenues	
Interest income	214,080
Passenger facility charges	552,233
Capital contributions in Federal Aid Projects	<u>981,771</u>
Decrease in net assets	(311,274)
Net assets at beginning of year, restated	<u>41,392,233</u>
Net assets at end of year	<u>\$41,080,959</u>

FUTURE OUTLOOK

Although 2004 finished slightly lower than 2003 in terms of passenger traffic, the airport remains in strong financial shape. Northwest continues to be the dominant air carrier serving the airport and United remains a strong option for air travelers. As mentioned earlier, the industry hope is for United to emerge from bankruptcy protection late in 2005. Capacity issues continue to be a problem for Chicago O'Hare; however, further cuts are not anticipated at this time. Security and the threat of additional terrorist attacks against aviation are always a concern for the industry. However, these are unknown and almost impossible for which to plan. Passenger traffic will continue to be monitored on a monthly basis and will figure into the 2006 budget preparations.

MBS International Airport Commission

Statement of Net Assets

December 31, 2004

Assets

Current assets:

Cash and cash equivalents \$18,044,346

Accounts receivable 247,992

Inventory 52,866

Construction-in-progress receivable 190,680

Total current assets 18,535,884

Capital assets:

Land and land improvements 7,113,954

Buildings 15,040,642

Runways and taxiways 27,873,472

Equipment 5,142,327

Construction-in-progress 1,199,384

56,369,779

32,858,552

Less accumulated depreciation

Total capital assets 23,511,227

Restricted cash 500,850

Total assets \$42,547,961

Liabilities and net assets

Current liabilities:

Accounts payable \$ 75,972

Deferred revenue 47,705

Accrued expenses and other current liabilities 99,678

Total current liabilities 223,355

Postretirement health benefits 1,243,647

Net assets:

Invested in capital assets, net of related debt 23,511,227

Restricted 500,850

Unrestricted 17,068,882

Total net assets 41,080,959

Total liabilities and net assets \$42,547,961

See accompanying notes.

MBS International Airport Commission

Statement of Revenues, Expenses and Changes in Net Assets

Year ended December 31, 2004

Operating revenues	
Landing fees	\$ 412,921
Concession fees	1,322,563
Rentals	787,188
Fuel flowage fees	134,153
Other	105,074
Total operating revenues	<u>2,761,899</u>
Operating expenses	
Salaries, wages and benefits	1,619,811
Utilities	256,227
Maintenance and repairs	85,535
Insurance	132,832
Security police	238,241
Other	434,717
Total operating expenses	<u>2,767,363</u>
Operating loss before depreciation and health benefit expense	(5,464)
Depreciation	1,995,068
Postretirement health benefit expense	58,826
Loss from operations	<u>(2,059,358)</u>
Non-operating revenues	
Interest income	214,080
Passenger facility charges	552,233
Capital contributions in Federal Aid Projects	981,771
Decrease in net assets	(311,274)
Net assets at beginning of year, restated	<u>41,392,233</u>
Net assets at end of year	<u>\$41,080,959</u>

See accompanying notes.

MBS International Airport Commission

Statement of Cash Flows

Year ended December 31, 2004

Cash flows from operating activities	
Cash received from providing services	\$ 2,759,999
Cash payments to suppliers	(1,738,264)
Cash payments to employees	(1,020,068)
Net cash provided by operating activities	<u>1,667</u>
Cash flows from capital and related financing activities	
Passenger facility charges	552,233
Purchases of capital assets, excluding additions acquired through capital grants of \$981,771 in 2004 and noncash activities	(1,000,391)
Proceeds from sale of capital assets	1,053
Net cash used by capital and related financing activities	<u>(447,105)</u>
Cash flows from investing activities	
Interest received	214,080
Net decrease in cash and cash equivalents	(231,358)
Cash and cash equivalents at beginning of year	18,776,554
Cash and cash equivalents at end of year	<u>\$18,545,196</u>
Reconciliation of loss from operations before non-operating revenues to net cash provided by operating activities	
Loss from operations	\$(2,059,358)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	1,995,068
Loss on sale of capital assets	2,623
Postretirement health benefits	38,653
Changes in operating assets and liabilities:	
Accounts receivable	(5,696)
Inventories	7,518
Accounts payable	15,458
Deferred revenue	1,173
Accrued expenses and other current liabilities	6,228
Net cash provided by operating activities	<u>\$ 1,667</u>
Noncash transactions	
Reclassification of Jetway Replacement Fund	<u>\$ 511,599</u>

See accompanying notes.

MBS International Airport Commission

Notes to Financial Statements

December 31, 2004

1. Organization

The MBS International Airport Commission (Commission) was organized on August 18, 1941 by the cities of Midland, Bay City and Saginaw to operate a municipal airport under Act 344, Public Acts of 1939, as amended. On July 21, 1961, all interests of the City of Bay City in the Airport were transferred to Bay County. On October 20, 1994, a resolution was enacted by the Commission to officially change the name of the Airport from Tri-City International Airport to MBS International Airport (Airport).

The governing board of the Commission is appointed by the respective municipalities. Each municipality appoints three members to the Commission and each serves a term in accordance with the terms of the municipality. The Commission controls the employment of the Airport Manager, who is responsible for overseeing the day-to-day operations of the Airport.

2. Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commission follows GASB guidance as applicable to enterprise funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, restricted cash, interest and non-interest bearing deposits, and short-term investments with an original maturity of three months or less.

Cash and cash equivalents totals \$18,545,196. Of this amount, approximately \$13,900,000 is in the Master Plan Projects Fund, \$2,000,000 is in the Emergency Capital Fund, \$1,900,000 is in other reserved funds, \$570,000 is in the Passenger Facility Charges Fund and \$130,000 is in other operating funds.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes-off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2004 would be immaterial; therefore, no allowance for uncollectible accounts is recorded.

MBS International Airport Commission
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Inventory

Inventory, which consists principally of various supplies, is valued at the lower of cost or market on the first-in, first-out method.

Capital assets

Capital assets are stated at cost and are depreciated over their estimated lives by the straight-line method.

Capital Contributions

Certain expenditures for Airport capital improvements are significantly funded through the Airport Improvement Program of the Federal Aviation Administration (FAA) with certain matching funds provided by the State of Michigan and the Commission, or from various state or federal grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred. Capital contributions arising from federal and state funding of Airport capital projects are classified as non-operating revenue. Construction-in-progress at December 31, 2004 included various projects funded primarily through federal and state contributions.

Revenue Recognition

Revenue, other than passenger facility charge revenue, is recognized on the accrual basis. Passenger facility charge revenue is recorded when received since the Airport has no control over the timing or amount of receipts.

Retirement Plan

The Commission has a defined benefit pension plan covering substantially all employees. The plan is administered under the State of Michigan Municipal Employees' Retirement System (MERS). The Commission's policy is to recognize pension costs based on actuarially determined required contributions.

Postretirement Health Benefits

The Commission provides certain health care insurance benefits for retirees; substantially all employees may become eligible for these benefits. The Commission estimates these benefits by calculating the amounts that the Commission may pay to vested and retired employees taking into consideration current insurance costs, adjustments to insurance costs at age 65 and a life expectancy of 76 years old. The Commission has not had a recent actuarial valuation to determine what the required liability may be under GASB Statement No. 45, which will be applicable for the year ended December 31, 2009.

MBS International Airport Commission

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Accounting Changes

On January 1, 2004, the Airport adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement established the basic financial statements and required supplementary information for the Airport. This information consists of:

- Management's discussion and analysis.
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows.
- Notes to the financial statements.

The adoption of the Statement required amounts previously recorded as contributed capital to be reclassified as net assets.

In addition, the Airport restated its beginning net assets to properly reflect the Jetway Replacement Fund as prior year revenue. This restatement resulted in the beginning net assets increasing by \$511,599.

3. Cash and Interest-Bearing Deposits

GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

In accordance with GASB Statement No. 3, deposits are classified into three categories of custodial credit risk as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2: Collateralized with securities held by the financial institution's trust department or agent in the entity's name. Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the financial institution, or by its trust department or agent, but not in the entity's name.)

MBS International Airport Commission

Notes to Financial Statements (continued)

3. Cash and Interest-Bearing Deposits (continued)

Certain funds not required in day-to-day operations are invested. Cash balances totaling \$18,552,578 were on deposit (\$17,819,981 in interest-bearing accounts) in well capitalized, sound financial institutions which are covered by federal depository insurance of \$100,000 (GASB credit risk Category 1) for each depositor. At December 31, 2004, \$18,252,578 of such deposits are uninsured and uncollateralized (GASB credit risk Category 3). The Airport does not believe that this deposit concentration represents any undue credit risk.

At December 31, 2004, the Commission had \$500,850 in restricted cash related to Passenger Facility Charge (PFC) revenue in excess of expenses. See Note 10 for further information.

4. Capital Assets

Capital asset activity consists of the following:

	Balance January 1, 2004	Increases	Decreases	Balance December 31, 2004
Capital assets not being depreciated:				
Land	\$ 4,062,458			\$ 4,062,458
Capital assets being depreciated:				
Land improvements	2,784,002	\$ 267,494		3,051,496
Buildings	14,312,914	751,005	\$ 23,277	15,040,642
Runways and taxiways	26,548,731	1,324,741		27,873,472
Equipment	4,196,057	1,286,422	340,152	5,142,327
Construction-in-progress	2,842,315	1,911,191	3,554,122	1,199,384
Subtotal	50,684,019	5,540,853	3,917,551	52,307,321
Less accumulated depreciation for:				
Land improvements	1,964,932	136,869		2,101,801
Buildings	7,527,233	670,747	19,601	8,178,379
Runways and taxiways	17,818,786	1,281,187		19,099,973
Equipment	3,589,245	203,732	340,152	3,452,825
Construction-in-progress	323,042	244,236	541,704	25,574
Subtotal	31,223,238	2,536,771	901,457	32,858,552
Net capital assets being depreciated	19,460,781	3,004,082	3,016,094	19,448,769
Total capital assets, net	\$23,523,239	\$3,004,082	\$3,016,094	\$23,511,227

MBS International Airport Commission

Notes to Financial Statements (continued)

5. Operating Revenues

The operating revenues of the Commission consist primarily of landing fees, rentals and concession fees. Operating revenue, by customer, for the year ended December 31, 2004 is as follows:

Northwest Airlines	\$ 619,000
SkyWest Airlines	160,000
Atlantic Coast Airlines	59,000
Mid-Michigan Air Center, Inc.	183,000
APCOA, Inc. (parking lot concessionaire)	736,000
Car rental companies	538,000
All other customers	467,000
	<u>\$2,762,000</u>

Agreements for such fees are generally renegotiable after periods of one to ten years.

Revenue from rental of terminal facilities to commercial airlines was approximately \$479,000 for the year ended December 31, 2004. Landing fee revenue from these airlines was \$413,000 in 2004 and is covered under agreements which expired December 31, 2004 and are continuing on a month-to-month basis.

Minimum future revenue from non-cancelable rental and concession agreements in effect at December 31, 2004 is as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 359,000
2006	187,000
2007	145,000
2008	137,000
2009	121,000
Thereafter	179,000
	<u>\$1,128,000</u>

6. Retirement Benefits

Plan Description – The Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, state-wide, public employee pension plan, created under Act 135 of the Public Acts of 1945. The plan operates under Public Act 220 of 1996 and the MERS Plan Document as revised. The Commission participates in the defined benefit program of the MERS plan. MERS issues an annual financial report, which includes financial statements and required supplementary information. The report may be obtained at Municipal Employees' Retirement System of Michigan, 477 N. Canal Rd., Lansing, Michigan 48917.

MBS International Airport Commission

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

The plan covers all full-time employees. Participating employees consisted of 27 active participants and 11 retirees and beneficiaries as of December 31, 2003, the date of the most recent actuarial valuation. Additional information concerning the retirement plan as of December 31, 2003 follows:

Normal Retirement: In general, age 60 with 10 years or more of credited service. Non-union participants also have the option of age 55 with 25 years or more of credited service. The benefit is two and a quarter percent of the member's three year final average compensation for each year of service. Union participants have the option of age 55 with 25 years or more of credited service. The benefit is two percent of the member's five year final average compensation for each year of service. Normal retirement for the Airport Manager is 25 years of service and out.

Funding Policy – The Commission establishes benefit provisions. Subject to union contracts, the Commission has the authority to amend the benefit provisions within the options allowed by MERS. All employee contributions are refundable if the employee elects to terminate vesting rights or is not vested at the date of termination of employment. Effective in 1989, the plan no longer requires employee contributions. The Commission's funding policy provides for monthly (quarterly in 1997 and prior years) contributions to MERS. The contributions are actuarially determined, expressed as percentages of annual covered payroll, and designed to accumulate sufficient assets to pay benefits when due. The MERS Retirement Board establishes the funding methods.

Annual Pension Cost – For 2004, the Commission's actual pension contributions of \$140,816 exceeded the annual pension cost of \$108,209 thereby decreasing the net pension obligation by \$32,607. The Commission did not have a net pension obligation at transition, determined in accordance with GASB Statement No. 27, as their actual contributions made equaled the actuarially determined required contributions for each year during the "look-back period."

The actuarial valuation is performed as of the last day of each fiscal year for the plan and determines contribution requirements for the second following fiscal year. The 2004 contributions were based on the December 31, 2002 valuation. The normal cost and actuarial accrued liability are determined using the entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a percent of payroll over a period of 30 years. Significant actuarial assumptions used in determining the pension benefit obligation included (i) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (ii) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (iii) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (iv) the assumption that benefits will increase 2.5% annually after retirement. Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the pension benefit obligation. The actuarial value of assets is determined on the basis of a valuation method that assumes the funds earn the expected rate of return (8.0%) and includes an adjustment to reflect market value.

MBS International Airport Commission

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)	Cumulative NPO
12/31/04	\$136,392	103.2%	\$ (4,424)	\$ 27,911
12/31/03	93,324	117.7	(16,518)	32,335
12/31/02	76,762	128.6	(21,949)	48,853

Health Insurance – The Commission provides continued health insurance to eligible retirees and their spouses in the form of a Staff Plan and a Union Plan. During 2002, the Commission re-evaluated the liability by projecting the estimated health care benefits for these employees that have vested in the plan and those already retired. Management intends to re-evaluate the calculation annually and make the appropriate adjustment. Postretirement benefits expense was \$58,826 for 2004

7. Required Supplemental Information on Retirement Plan

The following table shows the required three-year historical trend information relating to the funding progress of the Commission's retirement plan.

Actuarial Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Overfunded) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	UAAL as a Percent of Covered Payroll (3) / (5)
2001	\$4,334,781	\$4,582,480	\$247,699	95	\$ 952,863	26%
2002	4,432,017	5,189,175	757,158	85	1,008,583	75
2003	4,690,145	5,398,839	708,694	87	1,034,032	69

8. Deferred Compensation Plan

The Commission established a deferred compensation plan to provide retirement income and other deferred benefits to its employees in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986, as amended. Contributions to the plan totaled \$56,690 in 2004.

9. Construction-in-Progress Commitments

The Commission is participating in several capital projects whereby the Federal and State governments have agreed to pay for a portion of the project with the remainder to be paid by the Commission. As of December 31, 2004, the Commission has paid more than its portion of the outstanding commitments to date on these projects and has recorded a receivable for this amount.

MBS International Airport Commission

Notes to Financial Statements (continued)

10. Passenger Facility Charges

Effective June 28, 1991, Federal Aviation Regulation 158 established a Passenger Facility Program. Under this regulation, airports may be authorized to impose an airport Passenger Facility Charge (PFC) of \$1, \$2, or \$3 per enplaned passenger at a commercial service airport it controls. The proceeds from such PFCs are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers.

The rule sets forth procedures for public agency applications for authority to impose PFCs for Federal Aviation Administration (FAA) processing of such applications, for collection, handling, and remittance of PFCs by air carriers, for recordkeeping and auditing by air carriers and public agencies, for terminating PFC authority, and for reducing Federal grant funds apportioned to large and medium hub airports imposing a PFC.

The FAA approved MBS International Airport's first Passenger Facility Charge application in the amount of \$1,400,000 (amended to \$874,682) to reimburse the local share of Airport Improvement Projects (AIP) which occurred during 1991 through 1997. This application was completed in 1999. The FAA also approved the Airport's second PFC application in the amount of \$812,050 (amended to \$438,614) which was completed in 2002. The third PFC application in the amount of \$4,234,047, the fourth application in the amount of \$1,999,052, and the fifth application in the amount of \$1,378,794 to reimburse the local share of subsequent Airport Improvement Projects were also approved by the FAA. These applications were approved for the collection of \$3 per enplaned passenger, of which the airlines retain 8 cents on each \$3 charge as a collection fee and forward the remaining \$2.92 to the Airport. During 2004, the collection fee the airlines can retain increased to 11 cents, with the remaining \$2.89 being forwarded to the Airport. The Airport received \$552,233 (including \$9,428 of interest income on excess PFC revenue) in PFC revenue in 2004. The Airport has received \$500,850 as of December 31, 2004 in PFC revenues in excess of eligible expenditures. This amount has been classified as restricted cash and net assets and maintained in a separate cash account.



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

**Report of Independent Auditors
on Other Financial Information**

Board of Commissioners
MBS International Airport Commission

Our report on our audit of the financial statements of MBS International Airport Commission appears on page one. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying detail of operating revenues and detail of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
February 18, 2005

MBS International Airport Commission

Detail of Operating Revenues

Year ended December 31, 2004

Airfield area	
Landing fees	\$ 412,921
Fuel flowage fees	134,153
Farm land rental	39,965
Miscellaneous	2,105
Total airfield area	<u>589,144</u>
Hangar area	
Fixed base operators' concession fees	7,151
Ground rental:	
Hangar	52,676
Non-commercial	47,560
Commercial	47,047
Total ground rental	<u>147,283</u>
Total hangar area	<u>154,434</u>
Terminal area	
Rentals:	
Airline	478,829
Car rental companies	38,463
Travel agent	992
Other	68,264
Total rentals	<u>586,548</u>
Concession fees:	
Car rental companies	490,661
Parking lot	735,961
Restaurant, gift shop and bar	45,950
Advertising	39,340
Limousine service	3,500
Total concession fees	<u>1,315,412</u>
Loss on sale of capital assets	(2,623)
Other revenue	105,592
Total terminal area	<u>2,004,929</u>
Administration building	
Office space rental	13,392
TSA Reimbursement Grant	-
	<u><u>\$2,761,899</u></u>

MBS International Airport Commission

Detail of Operating Expenses

Year ended December 31, 2004

Salaries, wages and benefits	
Maintenance	\$ 431,969
Crash, fire and rescue	355,022
Administration	240,079
Payroll taxes and fringe benefits	592,741
Total salaries, wages and benefits	<u>1,619,811</u>
Other operating expenses	
Utilities X	256,227
Maintenance and repairs	85,535
Insurance	132,832
Security police	238,241
Professional fees	50,947
Operating supplies	116,811
Custodial supplies	9,086
Equipment rental	4,277
Gasoline and oil	37,402
Travel	22,029
Telephone	11,269
Public relations	160,030
Shop tools and equipment	5,633
Dues and subscriptions	9,622
Uniforms	2,587
Landscaping	839
Janitorial services	4,185
Total other operating expenses	<u>1,147,552</u>
	<u><u>\$2,767,363</u></u>